

Rep. Baird Testifies Before Ways and Means On Sales Tax Fairness (November 16, 2005)

Washington, D.C. - Congressman Brian Baird today testified before the Select Revenue Measures Subcommittee of the Ways and Means Committee on making sales tax fairness permanent for Washington State taxpayers.

Congressman Baird introduced the Permanent Sales Tax Deduction Act of 2005 earlier this year. During the 108th Congress, Congressman Baird successfully led a bipartisan, multi-state effort to pass legislation reinstating the sales tax deduction for Washingtonians for 2004 and 2005, which saved Washington residents over \$500 million last year alone. Last month, Congressman Baird and Congressman Kevin Brady (R-TX) sent a letter to Ways and Means Chairman Thomas Bill Thomas (R-CA) urging the Chairman to include sales tax fairness as part of his tax agenda for the 109th Congress.

Congressman Baird's Testimony:

I appreciate the opportunity to appear here today in front of the Select Revenue Measures Subcommittee to discuss H.R. 519, the Permanent Sales Tax Deduction Act. Representative Kevin Brady, a distinguished Member of the Ways & Means Committee, and I introduced this legislation in February. The legislation now boasts 73 bipartisan sponsors.

As you are aware, prior to last year, the tax code treated taxpayers in some states more favorably than those in other states. Individuals living in states that tax income could deduct their state income tax from their federal tax bill. However, those living in states - such as my home state of Washington - who do not have an income tax and rely instead on a sales tax could not deduct their state taxes. They ended up paying significantly more to the federal government than a taxpayer with an identical profile in a different state.

A state sales tax deduction was included in our tax laws prior to 1986. I am sure that the repeal of the sales tax deduction in the mid-1980s was well-intentioned. However, its repeal resulted in a significant disparity between states, a disparity which was profoundly unfair.

To remedy the problem, I worked with Representative Kevin Brady and other Members from sales tax states to restore equity to our tax code by reinstating the sales tax deduction. After years of work, we were finally successful in restoring the deduction in the American Jobs Creation Act that passed last year. Those living in states that have an income tax are still able to take an income tax deduction as they have in the past. However, now residents of states that do not use an income tax are provided with the opportunity to take a similar deduction. Restoring the sales tax deduction has provided a great benefit to my constituents, saving Washington State residents approximately \$500 million per year. These tax savings have meant a boost to the Washington State economy and state economies throughout the country.

Unfortunately, the sales tax deduction that was reinstated last year applied only to the 2004 and 2005 tax years. Under current law, after December 31, 2005, the sales tax deduction will be unavailable to residents in Washington State and the six other states without a state income tax.

That is why Representative Kevin Brady and I introduced H.R. 519, the Permanent Sales Tax Deduction Act. This legislation will make the sales tax deduction permanent.

As the Ways & Means Committee and the Select Revenue Measures Subcommittee consider tax proposals, I strongly believe that the issue of tax fairness must be one of its top priorities. Allowing the state sales tax deduction to expire will have a significant impact on taxpayers throughout the country. Residents of my state and other states rightfully expect that they will continue to be treated equally under the law by the federal government, regardless of the local tax system elected by their state.

We frequently hear about the importance of certainty and predictability in our tax code. It is important for taxpayers to know whether a tax deduction or incentive will continue to be available so that they can make important day-to-day decisions. This certainly applies to the sales tax deduction. Residents in sales tax states are asking themselves whether they should buy a car now, or wait until next year; whether they will be able to use their tax savings to send a child to college in the next few years; and whether they will be able to still afford the down payment on a house as they had planned.

A year-to-year extension of the sales tax deduction ¹/₂ such as that proposed in the Senate Finance Committee's Budget Reconciliation proposal ¹/₂ is a significant first step. However, I would strongly urge the Ways & Means Committee and the taxwriters on the other side of the Capitol to consider enacting H.R. 519 and making the sales tax deduction permanent.

The Permanent Sales Tax Deduction Act and the necessary extension of the state sales tax deduction affects millions and millions of taxpayers in seven states ¹/₂ Washington, Florida, Texas, Nevada, Tennessee, South Dakota, and Wyoming. These seven states are represented by 80 Members of Congress, or nearly 20% of all Members of the House of Representatives.

As of today, the Permanent Sales Tax Deduction Act has received wide bipartisan support in Congress. The sales tax deduction has also received the support of countless individuals and organizations throughout the country, including the National Conference of State Legislators and the Governors from each of the sales tax states.

I ask you to maintain fairness in the tax code by supporting H.R. 519, the Permanent Sales Tax Deduction Act. I would be happy to answer any questions or provide any additional information on this proposal to the Subcommittee and thank you for the opportunity to testify.

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